

# **PERFORMANCE AUDIT REPORT**

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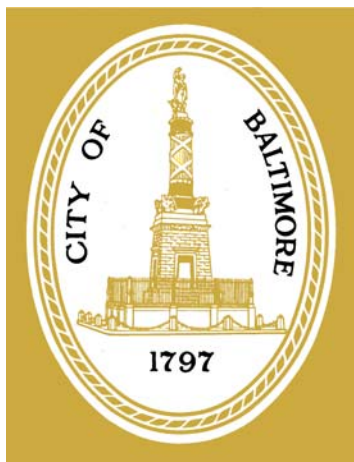
## **CITY OF BALTIMORE**

### **BUREAU OF PURCHASES**

### **SMALL PURCHASES PROCUREMENT CARD PROGRAM**

### **JANUARY 2002**

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**City of Baltimore**  
**Department of Audits**

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## CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



## DEPARTMENT OF AUDITS

YOVONDA D. BROOKS, CPA  
City Auditor

Room 321, City Hall  
Baltimore, Maryland 21202  
Telephone: (410) 396-4783  
Telefax: (410) 545-3961

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January 31, 2002

Honorable Joan M. Pratt, Comptroller  
And Other Members of the Board of Estimates  
City of Baltimore

This report conveys the results of our performance audit of the Bureau of Purchases – Procurement Card Program for the period from July 1, 2000 through June 30, 2001. Our general overall objective of this audit was to determine whether proper management controls are maintained over the authorization and the use of the Small Purchases Procurement Card Program card.

### **BACKGROUND:**

The City of Baltimore has established a Small Purchases Procurement Card Program (SPPCP) for utilization within its agencies and commissions by authorized Baltimore City personnel. The program enables employees to save the City time and money by allowing authorized purchasers to make low dollar purchases necessary for their operations. Card usage provides faster delivery to the agency and reduces administrative paperwork associated with other procurement methods for acquiring low-priced items. This program eliminates the issuance of thousands of purchase orders, reduces the processing of many invoices, reduces the number of small dollar checks, and assists the City in obtaining small dollar items efficiently. Vendors also benefit from an improved payment cycle. During fiscal year 2001, the City purchased goods and services totaling \$684,527 using the procurement card program. There are 22 City agencies and 151 cardholders participating in this program.

The small purchases procurement card (card) streamlines the purchase and payment process for small dollar items. The card has built-in safeguards and management controls to minimize misuse. Safeguards assigned to each card include monthly and single purchase dollar caps and restrictions placed on purchases from certain vendor categories (e.g., blocked authorization against certain merchant activity codes.) Management controls include the review and approval process of purchase activity by the approving official and Citywide monitoring by the program coordinator.

Each cardholder is required to maintain a monthly cardholder activity log that records the order date, vendor's name, quantity and description, City's budget account number, cost or refund, delivery cost, total transaction amount, delivery date, and notation of whether item reconciles to the bank statement. This activity log is key to managing and controlling the card. The cardholder is also required to maintain receipts and detailed invoices to support each purchase.

Each month, the bank sends a billing statement directly to each cardholder. The cardholder is responsible for reconciling the billing statement to the cardholder activity log, receipts and invoices and for signing the activity log. The billing statement and signed cardholder's activity log are forwarded to the supervisor/manager and the fiscal officer (approving officials) for review and approval. The approving officials certify the cardholder's activity log by signing it, and a journal entry that charges the agency's appropriate budget account is processed.

### **OBJECTIVES, SCOPE AND METHODOLOGY:**

The specific objectives of this audit were to determine if credit cardholders are making authorized purchases and properly accounting for all items purchased/procured and to determine if the approving officials are adequately reviewing, approving and certifying payment for the items purchased by the cardholder. Our audit period was from July 1, 2000 through June 30, 2001.

This audit was conducted in accordance with *Government Auditing Standards* related to performance audits, issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures we considered necessary in the circumstances.

In conducting this audit, we interviewed the program coordinator and documented our understanding of the policies and procedures used by management, approving officials, and cardholders that ensure the proper controls over the authorization and the use of the procurement card. We supplemented this understanding by reviewing the SPPCP manual. We reviewed and verified purchase activity totaling \$252,467 for 21 cardholders of 11 City agencies to determine whether all purchases made through the use of the procurement card were properly supported and recorded on the log and bank statement. We also verified certification of the cardholders' logs.

### **AUDIT RESULTS:**

Our testing disclosed that the policies, procedures and controls in place to administer SPPCP were adequate for the program to operate efficiently and effectively. However, our audit disclosed several instances where the cardholders and approving officials failed to adhere to the SPPCP guidelines and procedures. We found the following instances of noncompliance:

- **Five agencies did not follow the written policies and procedures of the Procurement Card Program. Examples of these instances were not maintaining the activity log, paying sales tax on purchases, and making multiple purchases of similar items to avoid using the regular procurement method.**

- **Eleven cardholders did not maintain documentation for purchases totaling \$35,263.**
- **Signatures, which are indicative of review and approval, were not consistently present on the log for five agencies.**
- **Ten cardholders and one approving official did not receive training on the guidelines and responsibilities of the procurement card program.**

These instances of noncompliance did not appear to be a pervasive problem throughout the City.

### **RECOMMENDATION:**

We recommend that the Bureau of Purchases (Purchases) train or retrain cardholders and approving officials to ensure compliance with the guidelines and responsibilities of the procurement card program. We also recommend that the agency approving officials ensure that cardholders retain the purchase logs with support documentation (sales receipts, vendors' invoices and shipping invoices) for a period of three years. Finally, we recommend that Purchases cancel the procurement credit card for those cardholders who fail to abide by the procedures as outlined in the SPPCP manual.

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The Bureau of Purchases' response to our audit is included as an attachment to this report.

We appreciate the cooperation and assistance provided by the staff members of the Bureau of Purchases – SPPCP Division and the City's cardholders and approving officials.

Respectfully submitted,

Yovonda D. Brooks, CPA  
City Auditor

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF FINANCE

BUREAU OF PURCHASES  
231 E. Baltimore Street, Suite 300  
Baltimore, Maryland 21202

January 29, 2002

Ms. Yovonda D. Brooks, City Auditor  
Department of Audits, 321 City Hall  
Baltimore, Maryland 21202

Re: Small Business Purchases Procurement Card Program Audit Report

Dear Ms. Brooks:

The Bureau of Purchases is in full accord with the Department of Audits recommendations regarding the Small Business Purchases Procurement Card Program. Accordingly, the Bureau of Purchases will schedule training dates and notify the respective Department Heads of the names of individuals that must satisfactorily complete the Small Purchases Procurement Card Program training. Departments and individuals who fail to participate in the required training, adhere to credit card use policies, maintain complete and accurate records, will have their respective Small Business Purchases Procurement Card Program privileges revoked.

Sincerely,

Arthur B. McNeal, Sr., CPPO, MCA

